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PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF
THOMAS P. BRICE
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

APRIL 23, 2021

<u>TESTIMONY INDEX</u>		<u>PAGE</u>
<u>SECTION</u>		
I.	INTRODUCTION	1
II.	PURPOSE OF REBUTTAL TESTIMONY	1
III.	DEFERRAL OF CHANGES IN WHOLESALE TRANSMISSION CHARGES	2
IV.	DOLET HILLS POWER STATION RATE TREATMENT	5
V.	POTENTIAL FUTURE NATURAL GAS CONVERSION OF THE WELSH PLANT.....	16
VI.	ETSWD'S DOCKET NO. 51257 REQUEST FOR DECLARATORY ORDER	17
VII.	CONCLUSION.....	19

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

3 A. My name is Thomas P. Brice. I am Southwestern Electric Power Company's
4 (SWEPCO) Vice President Regulatory and Finance. My business address is 428 Travis
5 Street, Shreveport, LA 71101.

6 Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

7 A. Yes, I did.

8 II. PURPOSE OF REBUTTAL TESTIMONY

9 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

10 A. My rebuttal testimony addresses a number of issues raised by intervenor and Public
11 Utility Commission of Texas (PUC or Commission) Staff witnesses, including:

12 (1) Deferral of Changes in Wholesale Transmission Charges

- 13 • I explain the purpose of and provide support for SWEPCO's request as
14 it relates to charges and revenues SWEPCO receives under the FERC-
15 approved Southwest Power Pool Open Access Transmission Tariff (SPP
16 OATT).
17 • I rebut the testimonies of multiple intervenor and PUC Staff witnesses
18 who have addressed this request.

19 (2) Dolet Hills Power Station Rate Treatment

- 20 • I provide support for SWEPCO's requested Dolet Hills Power Station
21 rate treatment, including the proposed offset of Dolet Hills
22 undepreciated book value with excess accumulated deferred income
23 taxes.
24 • I rebut the testimonies of multiple intervenor and PUC Staff witnesses
25 who address this proposal.

26 (3) Potential Future Natural Gas Conversion of the Welsh power plant

1 • I explain that SWEPCO has made no decision as to the potential
2 conversion of the Welsh plant and that the requests of Sierra Club
3 witness Ms. Devi Glick regarding this conversion are premature.

4 (4) East Texas Salt Water Disposal Company's (ETSWD) Docket No.
5 51257 Request for Declaratory Order

6 • I explain that ETSWD's request is the subject of a separate, fully
7 briefed, proceeding currently pending before the Commission and that
8 the requests of ETSWD witness Ms. Kit Pevoto are beyond the scope of
9 this base rate case.

10 III. DEFERRAL OF CHANGES IN WHOLESALE TRANSMISSION CHARGES

11 Q. PLEASE BRIEFLY DESCRIBE SWEPCO'S REQUEST AS IT RELATES TO THE
12 TRANSMISSION CHARGES THAT SWEPCO INCURS PURSUANT TO THE SPP
13 OATT.

14 A. SPP charges SWEPCO for the use of other SPP transmission owners' facilities to serve
15 SWEPCO's customers. SWEPCO also receives payment from SPP for SPP members'
16 use of SWEPCO's transmission facilities. These payments (charges) and receipts
17 (revenues) occur pursuant to the Federal Energy Regulatory Commission (FERC)-
18 approved SPP OATT. The net amount that SWEPCO incurred during the test year is
19 included in SWEPCO's requested cost of service in this proceeding. SWEPCO
20 proposes that the portion of its ongoing net SPP OATT charges that is above or below
21 the net test year level approved for recovery by the Commission be deferred into a
22 regulatory asset or liability until they can be addressed in a future Transmission Cost
23 Recovery Factor (TCRF) or base-rate proceeding. Texas Industrial Energy Consumers
24 (TIEC) witness Mr. Pollock and Staff witness Narvaez understood SWEPCO's
25 proposal to apply only to the charge side of the SPP OATT bill received by SWEPCO.

1 It is SWEPCO's intent that its proposal apply to the net SPP OATT bill, which nets
2 costs incurred and revenues received pursuant to the SPP OATT.

3 Q. ARE THERE IMPORTANT DISTINCTIONS BETWEEN THE COSTS THAT
4 SWEPCO INCURS PURSUANT TO THE SPP OATT AND THE OTHER COSTS
5 SWEPCO INCURS TO PROVIDE TRANSMISSION SERVICE TO CUSTOMERS?

6 A. Yes. In Docket No. 42448, a SWEPCO TCRF proceeding, the Commission found that
7 proof that the SPP charges were billed to and paid by SWEPCO pursuant to the SPP
8 OATT demonstrates the reasonableness of the charges for retail ratemaking purposes
9 as a matter of law. Further, unlike the capital SWEPCO invests in transmission assets
10 and the transmission operations and maintenance expenses incurred by SWEPCO to
11 operate those assets, SWEPCO does not have direct control over the expenses incurred
12 pursuant to the SPP OATT.

13 Q. ETSWD WITNESS MS. PEVOTO DESCRIBES SWEPCO'S PROPOSAL AS
14 "PASS-THROUGH COST RECOVERY." DO YOU BELIEVE THAT IS A FAIR
15 CHARACTERIZATION?

16 A. No. SWEPCO's proposal is not that changes in the net SPP OATT charges be
17 automatically passed through on customers' bills. Instead, these amounts will be
18 deferred into a regulatory asset or liability that will later be reviewed by the
19 Commission for accuracy and incorporated into SWEPCO's rates only as approved by
20 the Commission.

21 Q. MS. PEVOTO ALSO STATES THAT SWEPCO'S PROPOSAL WOULD RESULT
22 IN "DOLLAR FOR DOLLAR" RECOVERY OF THESE COSTS. IS THAT
23 CORRECT?

1 A. Yes, but only for a discrete cost incurred by SWEPCO pursuant to a federally approved
2 tariff. I agree with Ms. Pevoto that, pursuant to PURA, a utility's Texas retail rates are
3 set to provide the utility the opportunity, but not the guarantee, to earn a reasonable
4 return on its investment over and above its reasonable costs of providing service. I also
5 believe that SWEPCO's proposal is consistent with that statutory directive. Much like
6 the Commission's rate treatment afforded ERCOT distribution service providers
7 regarding the wholesale transmission changes incurred by them (discussed in my direct
8 testimony and in this testimony below), the intent of SWEPCO's proposal is that
9 SWEPCO recover no more and no less than the costs it incurs pursuant to the SPP
10 OATT for wholesale transmission service. Even with this rate treatment afforded to
11 this discrete cost, the rates set in this proceeding will still provide only the opportunity,
12 not a guarantee, to earn a reasonable return on SWEPCO's capital invested in the
13 service of customers.

14 Q. TIEC WITNESS MR. POLLOCK STATES THAT THERE IS NO PRECEDENT FOR
15 A RATE MECHANISM THAT ALLOWS FULL RECOVERY OF WHOLESALE
16 TRANSMISSION COSTS FOR NON-ERCOT UTILITIES. DO YOU HAVE ANY
17 COMMENT?

18 A. Yes. While it is true that the Commission has not yet ordered for a non-ERCOT utility
19 a cost recovery mechanism like the one proposed by SWEPCO, it is my understanding
20 that the TCRF rule for distribution service providers operating in ERCOT authorizes
21 the distribution service provider to charge or credit its customers for the amount of
22 Commission-approved wholesale transmission cost changes to the extent that such
23 costs vary from the transmission service cost used to fix the base rates of the

1 distribution service provider. When amending this rule in Project No. 37909, the
2 Commission observed that this recovery mechanism is appropriate because the ERCOT
3 distribution service providers have no ability to avoid such costs or address and manage
4 the regulatory lag that exists with respect to these costs. SWEPCO is in the same
5 position regarding the costs it incurs under the SPP OATT.

6 Q. WHAT IS THE SIGNIFICANCE OF THE FACT THAT SWEPCO HAS NO
7 ABILITY TO AVOID COSTS INCURRED UNDER THE SPP OATT OR TO
8 MANAGE THE REGULATORY LAG THAT EXISTS WITH RESPECT TO THOSE
9 COSTS?

10 A. If SWEPCO had direct control over the costs incurred under the SPP OATT, allowing
11 SWEPCO only a historical test year level of recovery might incentivize SWEPCO to
12 exercise its control over those costs. However, SWEPCO has no more control over
13 these costs than ERCOT distribution service providers have over the wholesale
14 transmission costs they incur. In a rising wholesale transmission cost environment such
15 as that experienced by SWEPCO over the past several years, Mr. Pollock's
16 recommendation sets SWEPCO up to under-recover its costs. To the extent that
17 wholesale transmission costs decrease, SWEPCO's proposal addresses that possibility
18 by tracking costs both above and below historical test year levels.

19 IV. DOLET HILLS POWER STATION RATE TREATMENT

20 Q. WILL YOU PLEASE BRIEFLY ADDRESS THE RATE HISTORY OF THE DOLET
21 HILLS POWER STATION?

1 A. The Dolet Hills Power Station (Dolet Hills plant) began providing service to customers
2 35 years ago, in 1986. However, SWEPCO filed no request to adjust its base rates in
3 Texas until many years later. The Commission did not place SWEPCO's investment
4 in the Dolet Hills plant or the operations and maintenance expenses to operate the plant
5 into rates until 2010, in Docket No. 37364. In other words, the Dolet Hills plant
6 provided service to Texas customers for 25 years before SWEPCO's investment in the
7 plant and the non-fuel expenses associated with it were placed in Texas rates.

8 Q. SWEPCO WILL RETIRE THE DOLET HILLS POWER STATION NO LATER
9 THAN DECEMBER 31, 2021. WHY IS SWEPCO RETIRING THIS PLANT?

10 A. SWEPCO has studied the expected total SWEPCO system cost to serve customers
11 under the scenario where the Dolet Hills plant continues to serve customers through
12 2026 and the scenario where the Dolet Hills plant is retired by December 31, 2021. I
13 provided that study as a workpaper to my direct testimony. That study demonstrates
14 that the expected least cost path for SWEPCO and its customers lies in retirement of
15 the Dolet Hills plant.

16 The Dolet Hills plant is fueled by lignite mined from nearby reserves, making
17 the Dolet Hills plant a "mine-mouth" plant. In response to increases in production costs
18 at the mine, SWEPCO and co-owner and plant operator Cleco Power, LLC (CLECO)
19 decided to reduce operations at the mine and move the plant to seasonal operation in
20 2019. During seasonal operation, the plant is planned to run during the peak summer
21 months when the plant typically is most needed by SWEPCO's customers. During
22 seasonal operation, the plant remains available in other parts of the year if called upon
23 by SWEPCO's and CLECO's respective Regional Transmission Organization for

1 reliability reasons. Despite diligent efforts to reduce mining costs, SWEPCO
2 determined early in 2020 that the economically recoverable lignite reserves were
3 depleted, mining activities should cease, and the plant should be retired by the end of
4 2021.

5 Q. HAS ANY PARTY TO THIS PROCEEDING CHALLENGED SWEPCO'S
6 DECISION TO RETIRE THE DOLET HILLS PLANT?

7 A. No. No testimony filed in this case challenges this analysis or the prudence of the
8 decision to retire the plant.

9 Q. SHOULD SWEPCO BE PENALIZED FOR THE DECISION TO RETIRE THE
10 DOLET HILLS PLANT?

11 A. No. In my experience, the Commission expects utilities subject to its jurisdiction to
12 exercise its judgment and select or choose a course of action that falls within that range
13 of actions that a reasonable utility manager would choose in the same or similar
14 circumstances. That is exactly what SWEPCO has done here. SWEPCO recognized
15 the changed circumstances faced by the Dolet Hills plant and made a reasonable
16 decision to retire the plant by the end of 2021. There is no basis to penalize SWEPCO
17 for making a decision that is in the best interest of customers, nor does any party suggest
18 that SWEPCO should be penalized for this decision. However, as I discuss below, the
19 ratemaking treatments for the Dolet Hills plant advocated for by several intervenors do,
20 in fact, penalize SWEPCO for acting in the best interest of its customers and require
21 SWEPCO to write-off of a portion of its investment in the Dolet Hills plant.

1 Q. ON WHAT BASIS DOES THE COMMISSION SET RATES?

2 A. The Commission sets rates on an historical test year basis. For instance, the
3 Commission's Cost of Service rule states that in computing an electric utility's
4 allowable expenses, only the electric utility's historical test year expenses as adjusted
5 for known and measurable changes will be considered. Likewise, this same rule
6 contemplates that, for ratemaking, the utility's invested capital (or rate base) is
7 measured as of the end of the historical test year.

8 Q. DOES THE COST OF SERVICE RULE PROVIDE FOR ADJUSTMENTS TO TEST
9 YEAR END INVESTED CAPITAL?

10 A. Yes, but in only very specific circumstances. The Cost of Service rule allows known
11 and measurable additions to historical test year rate base, but only if that plant is in
12 service by the beginning of the rate year and comprises at least 10% of the electric
13 utility's requested rate base. The Cost of Service rule allows post-test year adjustments
14 for known and measurable rate base decreases to historical test year data, but only if
15 that rate base decrease meets all the conditions identified in the rule. One of those
16 conditions is that the plant to be removed from rate base must have been "removed
17 from service, mothballed, sold, or removed from the electric utility's books prior to the
18 rate year," 16 TAC § 25.231(c)(2)(F)(iii).

19 Q. WAS THE DOLET HILLS PLANT IN SERVICE PRIOR TO THE RATE YEAR?

20 A. Yes. The Commission's rules define the rate year as beginning on "the first date that
21 rates become effective." By statute, SWEPCO's requested rates in this proceeding
22 became effective on the 155th day after the date the rate-filing package was filed, or
23 March 18, 2021. Therefore, pursuant to the Commission's Cost of Service rule,

1 SWEPCO's capital investment in the Dolet Hills plant may not be removed from the
2 rate base used to set rates in this proceeding.

3 Q. WHAT IS THE SIGNIFICANCE OF THE FACT THAT THE COST OF SERVICE
4 RULE ALLOWS ADJUSTMENTS TO HISTORICAL TEST YEAR RATE BASE
5 ONLY TO THE EXTENT THAT THE PLANT IS IN SERVICE OR TAKEN OUT
6 OF SERVICE BY THE BEGINNING OF THE RATE YEAR?

7 A. The fact is that a utility's rate base continually changes – existing investment is
8 depreciated over time, investment is retired, and investment is added. If the
9 Commission is going to use actual historical investment to set rates, a line must be
10 drawn after which the Commission will no longer allow changes to test year
11 investment. The Commission has drawn that line with the date that the new rates
12 become effective – the beginning of the rate year.

13 Q. CITIES ADVOCATING REASONABLE DEREGULATION (CARD) URGES THE
14 COMMISSION TO REMOVE SWEPCO'S CAPITAL INVESTMENT IN DOLET
15 HILLS FROM RATE BASE AT THE TIME THAT THE DOLET HILLS PLANT IS
16 RETIRED. WOULD THIS BE PROPER OR JUSTIFIED?

17 A. No. CARD witness Mark Garrett urges that the Dolet Hills plant be removed from rate
18 base at the time of retirement through the creation of a regulatory liability that would
19 accumulate the return on SWEPCO's capital investment in the Dolet Hills plant that
20 would be refunded to customers in SWEPCO next base rate case. As an initial matter,
21 Mr. Garrett's recommendation is contrary to the Commission's Cost of Service rule,
22 which requires, except in very specific circumstances, that only historical test year-end
23 invested capital be used to set rates, as I discuss above. PUC Staff witness Ms. Ruth

1 Stark (Staff) also recommends that SWEPCO's investment in the Dolet Hills plant be
2 removed from rate base. Staff's recommendation, likewise, is contrary to the
3 Commission's Cost of Service rule. Further, Mr. Garrett's recommendation is
4 asymmetrical in that it would ignore all post-test year capital investment in the
5 remainder of SWEPCO's generation fleet.

6 Q. WILL YOU PLEASE EXPLAIN WHAT YOU MEAN BY ASYMMETRICAL?

7 A. The recommendation of Mr. Garrett and others essentially is to pull SWEPCO's
8 investment in the Dolet Hills plant from rate base after its retirement, after rates have
9 been set in this proceeding. However, these parties do not recommend an increase to
10 SWEPCO's rate base for investment placed in service from the end of the test year on
11 March 31, 2020 through the date of the Dolet Hills plant retirement at the end of 2021.
12 In other words, these parties want to remove SWEPCO's invested capital in the Dolet
13 Hills plant at the time of its retirement, but ignore all other capital placed in service in
14 the 21 months that will have passed since the end of the test year. As I mention above,
15 the fact is that a utility's rate base is continually changing, both with retirements and
16 depreciation and with additions. Further, in my experience rate base tends to increase
17 over time, not decrease. To remove costs associated with the Dolet Hills plant from
18 rates after its retirement without accounting for additional investment placed into
19 service through that same date is asymmetrical and will not afford SWEPCO with an
20 opportunity to earn a reasonable return on its capital invested to serve customers.

21 Q. STAFF ARGUES THAT, IF DOLET HILLS COSTS ARE NOT REMOVED FROM
22 SWEPCO'S COST OF SERVICE, THE COMPANY WILL BE RECOVERING
23 COSTS FOR A PLANT AND MINING OPERATION THAT WILL NOT BE

1 PROVIDING SERVICE TO CUSTOMERS. IF THE COSTS OF THE DOLET
2 HILLS PLANT ARE NOT REMOVED FROM SWEPCO'S RATES UPON
3 RETIREMENT, WILL CUSTOMERS BE PAYING FOR A GENERATING PLANT
4 THAT IS NOT PROVIDING THEM ANY SERVICE?

5 A. No. Customers will not be paying for a plant that is not providing service any more
6 than customers received service free of charge from the Dolet Hills plant during its first
7 25 years of service before the Dolet Hills plant was placed into Texas rates. Customers
8 do not pay for individual investments made to provide service to them – the utility does.
9 Instead, customers pay for service at rates set by the Commission that will allow the
10 utility an opportunity to earn a reasonable return on its investments made to provide
11 service over and above its reasonable and necessary expenses.

12 Q. ON PAGES 26-27 OF MS. STARK'S TESTIMONY, STAFF ATTEMPTS TO
13 DRAW PARALLELS BETWEEN SWEPCO'S PROPOSAL REGARDING SPP
14 OATT EXPENSES AND REVENUES AND STAFF'S PROPOSAL REGARDING
15 THE DOLET HILLS PLANT. IS THAT A VALID COMPARISON?

16 A. No. SWEPCO proposes to account for all changes in SPP OATT expenses and
17 revenues and to record these changes into a regulatory asset or regulatory liability
18 depending on whether the net of these two goes above or below Test Year levels. In
19 contrast, Staff proposes to reach out as far as 21 months beyond the end of the Test
20 Year and remove from rates the investment and expenses associated with a single
21 generation facility while ignoring the other changes to investment and expenses that
22 will have occurred between the end of the Test Year and the retirement of the Dolet
23 Hills plant. Staff cites no Commission precedent for such a one-sided post Test Year

1 adjustment to Test Year end rate base and expenses. In contrast, SWEPCO's proposal
2 regarding SPP OATT expenses is in effect very similar to the ratemaking treatment the
3 Commission affords to ERCOT distribution service providers regarding wholesale
4 transmission expenses that are largely out of the utility's control.

5 Q. OFFICE OF PUBLIC UTILITY COUNSEL (OPUC) WITNESS MR. TONY M.
6 GEORGIS ARGUES THAT PUTTING THE COST OF OPERATING THE DOLET
7 HILLS PLANT INTO A RIDER THAT WOULD EXPIRE UPON THE PLANTS
8 RETIREMENT WOULD "ENSURE THAT THE COSTS ASSOCIATED WITH
9 OPERATING THE GENERATING ASSET ARE PROPERLY RECOVERED." DO
10 YOU HAVE A COMMENT?

11 A. Yes. Mr. Georgis' recommendation focuses on costs associated with a single item of
12 invested capital that provides capacity and energy to customers. While Mr. Georgis
13 wishes to remove costs associated with a single item of invested capital providing
14 capacity and energy to customers after its retirement, Mr. Georgis' recommendation
15 would fail to account for other changes in the costs to provide capacity and energy to
16 customers that will have occurred in the 21 months since the end of the test year.

17 Q. CARD WITNESS MR. SCOTT NORWOOD ARGUES THAT LEAVING TEST
18 YEAR O&M IN THE REVENUE REQUIREMENT RESULTS IN RATES THAT
19 ARE IN EXCESS OF THE LEVEL TO SERVE CUSTOMERS WHEN RATES ARE
20 IN EFFECT. DO YOU AGREE?

21 A. No. As an initial matter, I note that the effective date of the rates set in this proceeding
22 began on March 18, and the Dolet Hills plant continues to provide service to customers.
23 Further, Mr. Norwood's recommendation is a form of asymmetrical ratemaking, just

1 as is Mr. Garrett's recommendation. Leaving the Dolet Hills plant test year O&M in
2 rates does not necessarily result in rates in excess of the cost to serve customers any
3 more than not placing the Dolet Hills plant in rates during its first 25 years of operation
4 necessarily resulted in rates below the cost to serve customers. ETEC/NTEC witness
5 Mr. Hunt makes a similar recommendation, arguing that all the Dolet Hills plant O&M
6 costs should be deferred into a regulatory liability at the time of the Dolet Hills plant
7 retirement for return to customers at a later time. This recommendation suffers from
8 the same asymmetrical ratemaking as Mr. Norwood's recommendation. These
9 recommendations ignore any and all other changes to the cost of providing capacity
10 and energy to customers that will have occurred in the 21 months since the end of the
11 test year. SWEPCO witness Michael Baird discusses this fact further and quantifies
12 SWEPCO's capital invested since the close of the test year.

13 Q. CARD WITNESS MR. NORWOOD ALSO ARGUES THAT SWEPCO'S
14 INVESTMENT IN LIGNITE INVENTORY AT THE DOLET HILLS PLANT
15 SHOULD BE REMOVED FROM RATE BASE. DO YOU AGREE?

16 A. No. At the end of the test year and still today, SWEPCO was and is carrying a
17 significant inventory of lignite at the Dolet Hills plant to enable its operation through
18 this summer's peak. At the beginning of the rate year, this asset was very much still
19 on SWEPCO's books and its removal from rate base would violate the Commission's
20 Cost of Service rule regarding post-test year adjustments to rate base. OPUC witness
21 Ms. Cannady makes a similar recommendation that SWEPCO's investment in the
22 lignite reserves at Dolet Hills be removed from rate base. This recommendation, too,

1 violates the Commission's Cost of Service rule regarding post-test year adjustments to
2 rate base.

3 Q. STAFF STATES THAT NONE OF THE EXPECTED FUEL COST SAVINGS
4 ASSOCIATED WITH THE RETIREMENT ARE REFLECTED IN THIS
5 PROCEEDING. DO YOU HAVE AN OBSERVATION?

6 A. Yes. Customers will certainly be credited for any fuel cost savings realized by
7 SWEPCO. Fuel costs are reconciled to the actual fuel costs incurred by the Company
8 and are subject to Commission review in fuel reconciliation proceedings. Any fuel cost
9 savings will be reflected in fuel costs when they recur, ensuring that customers pay
10 only for those reasonable and necessary costs incurred.

11 Q. ON PAGE 28 OF MS. STARK'S TESTIMONY, STAFF IDENTIFIES
12 ALTERNATIVES TO THE RECOMMENDATIONS AROUND THE FUTURE
13 RETIREMENT OF THE DOLET HILLS PLANT, AS WELL AS THE FUTURE
14 RETIREMENT OF THE PIRKEY PLANT. PLEASE ADDRESS THOSE
15 ALTERNATIVES.

16 A. Staff suggests that the Commission could require that SWEPCO file a "rate case in
17 June 2022 using a December 2021 test-year end and a subsequent case in September
18 2023 using a March 31, 2023 test year end to coincide with the [Dolet Hills and Pirkey]
19 plant retirement dates." While I agree the purpose of a rate case is to match rates
20 charged to customers with the cost of providing that service to customers, I do not
21 believe it is warranted to order future rate cases with set test years. Instead, the more
22 efficient process is that currently used by the Commission. As Staff concedes, "On the
23 other hand, the Commission, at its discretion, can determine the appropriate time for

1 the filing of SWEPCO's next rate case based on its filed earnings monitoring report."
2 Under current Commission practice, the Commission monitors through earnings
3 monitoring reports whether rates are still set at a level that allows the utility the
4 opportunity to earn a reasonable return on its capital invested in the service of
5 customers.

6 Q. TIEC WITNESS MS. LACONTE ARGUES THAT, IF THE DOLET HILLS PLANT
7 IS OPERATIONAL, THE DOLET HILLS PLANT SHOULD BE DEPRECIATED
8 OVER ITS EXPECTED SERVICE LIFE PREVIOUSLY APPROVED BY THE
9 COMMISSION. DO YOU AGREE?

10 A. No. Ms. LaConte's recommendation is based on the Commission's treatment of Welsh
11 Unit 2 in Docket No. 40443. However, the circumstances present in that case regarding
12 Welsh Unit 2 are different from those present in this proceeding. In Docket No. 40443,
13 the Commission expressly deferred to SWEPCO's next base rate case the question of
14 whether the decision to retire Welsh Unit 2 was prudent. With no prudence finding
15 regarding the retirement of Welsh Unit 2, the Commission made no change to its
16 depreciable life. The circumstances in this case regarding the Dolet Hills plant are
17 different. In this case, the Commission in its Preliminary Order expressly recognizes
18 SWEPCO's evidence supporting its decision to retire the Dolet Hills plant and
19 identifies the issues that must be addressed in this proceeding, "Is SWEPCO's decision
20 to retire the Dolet Hills Power Station no later than December 31, 2021 prudent?" As
21 I noted above, no party has challenged the analysis supporting this decision or the
22 prudence of the decision itself. Therefore, the currently expected useful life of the
23 Dolet Hills plant extends only through 2021. In my direct testimony, I discuss what

1 this fact means for SWEPCO's rate request and recommend a ratemaking treatment
2 that would mitigate the rate impact of depreciating the Dolet Hills plant through 2021.

3 Q. SOME PARTIES HAVE RECOMMENDED THAT THE RETURN OF EXCESS
4 ACCUMULATED DEFERRED INCOME TAXES (ADIT) BE ADDRESSED
5 SEPARATELY FROM SWEPCO'S RECOVERY OF ITS INVESTMENT IN THE
6 DOLET HILLS PLANT. DO YOU HAVE A COMMENT?

7 A. Yes. As I note in my Direct Testimony, the recovery of SWEPCO's prudent investment
8 of capital in the Dolet Hills plant over the current useful life of that generating plant
9 would result in a significant rate impact to customers. SWEPCO's proposal to offset
10 the recovery of that investment from customers with the excess ADIT simply balances
11 investments legitimately incurred on behalf of customers with the excess ADIT
12 legitimately returnable to customers.

13 V. POTENTIAL FUTURE NATURAL GAS CONVERSION OF THE WELSH PLANT

14 Q. IN HER FIFTH AND SIXTH RECOMMENDATION TO THE COMMISSION,
15 SIERRA CLUB WITNESS GLICK URGES THE COMMISSION TO NOT ALLOW
16 THE RECOVERY OF FUTURE CAPITAL OR FIXED O&M ASSOCIATED WITH
17 A CONVERSION OF THE WELSH PLANT TO OPERATE ON NATURAL GAS
18 UNTIL SWEPCO HAS PRESENTED "ROBUST ANALYSIS" JUSTIFYING SUCH
19 CONVERSION. IS MS. GLICK'S REQUEST PREMATURE?

20 A. Yes. As acknowledged in Ms. Glick's testimony, SWEPCO has not yet determined
21 whether natural gas conversion of the Welsh plant is in customers' best interest.
22 Instead, SWEPCO has announced that the Welsh plant will cease coal-fired operations

1 in 2028 in light of the CCR/ELG requirements. If such a conversion to natural gas
2 were to materialize in the future, SWEPCO will request Commission authorization to
3 include the costs associated with that conversion in customer rates in a future
4 proceeding. Ms. Glick's recommendation is premature at this time.

5 Q. SHOULD THE COMMISSION PREJUDGE AT THIS TIME THE CONTENT OR
6 FORMAT OF THE ANALYSIS SUPPORTING A POTENTIAL NATURAL GAS
7 CONVERSION OF THE WELSH PLANT?

8 A. No. SWEPCO will continue to monitor the variables that will inform such a decision.
9 It would be improper for the Commission to prejudge at this time the content or format
10 of that analysis.

11 VI. ETSWD'S DOCKET NO. 51257 REQUEST FOR DECLARATORY ORDER

12 Q. PLEASE RESPOND TO MS. PEVOTO'S DIRECT TESTIMONY ON PAGES 20-21
13 REGARDING ETSWD'S PROPOSAL THAT A RETAIL CHOICE PILOT
14 PROGRAM BE INITIATED IN SWEPCO'S SERVICE TERRITORY?

15 A. As Ms. Pevoto noted in her testimony, this exact issue is the subject of another fully
16 briefed docket that is currently before the Commission.¹ Therefore, the Commission,
17 SOAH, and SWEPCO should not be required to expend resources to address ETSWD's
18 proposal outside of the docketed proceeding that was initiated by ETSWD. Moreover,
19 consideration of a retail choice pilot program is beyond the scope of this rate case,

¹ Direct Testimony of Kit Pevoto at 20. See generally, *Petition of East Texas Salt Water Disposal Company for Declaratory Order and Request for the Opening of a Pilot Project Implementation Project*, Docket No. 51257 (pending)

1 which was filed by SWEPCO for authority to change its rates. The Preliminary Order
2 in this docket did not identify a retail choice pilot program as an issue to be addressed
3 in this proceeding.²

4 As SWEPCO has briefed extensively in Docket No. 51257, Public Utility
5 Regulatory Act (PURA) contemplates that retail competition pilot programs are one of
6 the many steps in the statutory process set-up for SWEPCO's transition to competition,
7 not as an end to itself. PURA § 39.503 controls SWEPCO's transition to competition
8 process. Under that provision, a pilot program is one of three activities that must occur
9 within one of five total stages set forth as part of the transition to competition process.
10 Although PURA § 39.503 permits the Commission to modify the sequence of events
11 required by Subsections (b)-(e)—stages one through four of the process—the language
12 specifically prohibits revision of the substance of the requirements. A pilot project
13 would be difficult to implement without completion of the steps in the first stage set
14 out in PURA § 39.503(b) prior to implementation of a pilot project pursuant to a
15 Commission and stakeholder effort to transition SWEPCO to retail competition.
16 PURA § 39.104(a), which PURA § 39.503(c)(1) incorporates, contemplates that the
17 Commission is to use such pilot projects “to evaluate the ability of each power region
18 and electric utility to implement customer choice,” and not simply pursuant to customer
19 request that a pilot program be initiated.

² Preliminary Order (Dec. 17, 2020).

The Commission has already determined that the portions of Texas within the SPP are not ready to transition to retail competition.³ The Legislature confirmed the Commission's determination in that regard in 2009 when it passed Chapter 39, Subchapter K "Competition For Certain Areas Outside of ERCOT,"⁴ which includes provisions setting out the process that must be followed if SWEPCO were ever to transition to retail competition; stating that SWEPCO's Texas service area was unable to offer fair competition;⁵ and that the introduction of retail competition would be "delayed until fair competition and reliable service are available to all retail customer classes . . .".⁶ There is no indication that the Commission's decisions and the Legislature's finding in that regard have changed.

VII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

³ *Rulemaking Proceeding Relating to Retail Electric Competition in Northeast Texas*, Project No. 32104, Order Adopting New §25.422 as Approved at the August 23, 2006 Open Meeting at 5-6 (Aug. 29, 2006); “For the reasons discussed in this Order, the Commission delays customer choice [in the portions of Texas within the SPP]” *Staff’s Petition to Determine Readiness for Retail Competition in the Portions of Texas within the Southwest Power Pool*, Docket No. 24468, Order at 1 (Dec. 18, 2001).

⁴ PURA Chapter 39, Subchapter K only applies to SWEPCO by virtue of PURA § 39.501(a).

⁵ PURA § 39.501(b).

⁶ *Id.*